Setting the Record Straight

Participants Get 100% of Their Personal Retirement Accounts, Both Principal and Interest

Myth: Today's Washington Post story (p A13), headlined "Participants Would Forfeit Part of Accounts' Profits," is flat wrong. The article says workers who opt for personal accounts "would ultimately get to keep only the investment returns that exceed the rate of return that the money would have accrued in the traditional system." This statement, unfortunately, is also flat wrong. Both the headline and this assertion are completely inaccurate. The White House is seeking a correction from The Washington Post.

Reality: Under President Bush's plan, participants would get every single penny of their retirement accounts – both the principal and interest.

Myth: The WP story suggests that President Bush's proposed personal retirement accounts actually benefits the Federal Government more than the account holder, by providing a "claw back." A "claw back" is typically a feature of a plan where the government guarantees a certain combined benefit from the traditional system and the personal account. Under such a plan, the better your account does, the less you get from the government. Therefore, the gains in the accounts are "clawed back."

Reality: The President's plan for personal retirement accounts does not have a "claw back." Under the President's plan, you, not the government, get all the gains in your personal retirement account. The amount you receive from the government is NOT reduced if your personal account does well. The better your account does, the better off you are.

Here are the facts:

- President Bush's plan allows you to make a decision to put your money in a different kind of prudent investment, with the potential for receiving higher pay-outs.
    - For example, a worker who decides against taking a personal account might, in the future, get $15,000 annually in benefits from the traditional system, reformed to be permanently sustainable.
    - Another young worker could choose to invest in a personal retirement account. In exchange for the right to get the account, he gives up benefits from the traditional system. For example, he might give up one-third of those future government benefits, and be entitled to receive $10,000 annually from the traditional system.
- A personal retirement account would belong entirely to the worker. If the account earns a 3% real rate of return – the worker would be right back where he started – at $15,000 of combined benefits per year.
- A worker could earn a higher return through his personal account investments. The Social Security Actuary assumes he will invest in a conservative mix of stocks, corporate bonds, and government securities that would result in a 4.6% real rate of return. In this case, the account would be large enough to provide about $7,000 per year of benefits, so he would have a combined future benefit of $17,000. His combined benefit would be $2,000 per year higher than had he not chosen the account.

Source: White House Office of Communications

- A worker’s traditional benefit would be affected by the amount of investment in a personal account because some of his payroll taxes are flowing into the account, rather than into the traditional Social Security system. His government benefit would not, however, be affected by the investment performance of the personal account, as was suggested in today’s Washington Post.

- Note that if he puts all of his account into safe government securities, he can expect an average 3% real rate of return (the break-even rate). In addition, the worker will own all the funds in the account. Even if the worker were only to break even financially, he would be better off because of his ownership rights:

  - If he were to die before retirement age, he would have an asset to pass on to his loved ones.

  - If he were to divorce, his account would be marital property.

  - And if future policymakers were to change government-provided benefits, his account balance would be immune from those changes.

Remember:

- Personal retirement accounts help make Social Security better for younger workers. Personal retirement accounts give younger workers the chance to receive a higher rate of return from sound, long-term investing of a portion of their payroll taxes than they receive under the current system.

- Personal retirement accounts provide ownership and control. Personal retirement accounts give younger workers the opportunity to own an asset and watch it grow over time.

- Personal retirement accounts would be entirely voluntary. At any time, a worker could “opt in” by making a one-time election to put a portion of his or her payroll taxes into a personal retirement account.

  - Workers would have the flexibility to choose from several different low-cost, broad-based investment funds and would have the opportunity to adjust investment allocations periodically, but would not be allowed to move back and forth between personal retirement accounts and the traditional system. If, after workers choose the account, they decide they want only the benefits the current system would give them, they can leave their money invested in government bonds like those the Social Security system invests in now.

  - Those workers who do not elect to create a personal retirement account would continue to draw benefits from the traditional Social Security system, reformed to be permanently sustainable.

Source: White House Office of Communications